

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 AF-06 ARA-10 NEA-10 EA-09

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STR-04 CIEP-02 OMB-01 CEA-01 TRSE-00 OIC-02 SS-15

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8442

UNCLAS SECTION 01 OF 02 LONDON 01280

FOR EB/DEPUTY ASSISTANT SECRETARY KATZ

E.O. 11652: N/A

TAGS: EAGR, ETRD

SUBJECT: COFFEE - SETTING OF QUOTAS UNDER NEW ICA

REF: LONDON 1212

1. THIS CABLE, A CONTINUATION OF REFTTEL, EXAMINES THE CONCEPT OF DISAPPEARANCES AS A MEASURE OF CONSUMPTION OF GREEN COFFEE, AND PROVIDES PRELIMINARY COMMENTS ON THE USE OF DISAPPEARANCE CALCULATIONS IN CALCULATING QUOTAS UNDER THE NEW INTERNATIONAL COFFEE AGREEMENT (ICA).

2. DISAPPEARANCES. THE CONCEPT OF GREEN COFFEE DISAPPEARANCES WAS INTRODUCED SOME YEARS AGO IN AN EFFORT TO QUANTIFY ANNUAL GREEN COFFEE USE ON THE BASIS OF THE BEST DATA AVAILABLE. ESSENTIALLY, THE DISAPPEARANCE CALCULATION RECOGNIZES THAT, GIVEN DATA AVAILABILITIES, THE ONLY RELIABLE ESTIMATE OF CONSUMPTION OF GREEN COFFEE BEANS THAT CAN BE MADE IS THAT FOR CONSUMPTION AT THE ROASTER STAGE. THE FOLLOWING FORMULAE INDICATE HOW DISAPPEARANCES ARE CALCULATED FOR TWO DIFFERENT MARKETS:

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(A) WORLD DISAPPEARANCES: THIS IS THE SUM OF

GROSS IMPORTS OF GREEN COFFEE OF ALL IMPORTING COUNTRIES, LESS RE-EXPORTS, LESS CHANGES BETWEEN VISIBLE OPENING AND CLOSING INVENTORIES (I.E., A NEGATIVE CHANGE IN INVENTORY HAS AN INCREASING EFFECT ON DISAPPEARANCE; A POSITIVE CHANGE, THE OPPOSITE).

(B) DISAPPEARANCES OF ICA COFFEE IN MEMBER COUNTRY: THIS IS A SIMILAR CALCULATION EXCEPT IMPORTS BY MEMBERS FROM NON-MEMBERS MUST BE DEDUCTED. SUMMATION, OF COURSE, WOULD EXCLUDE NON-MEMBER IMPORTERS (E.G. THE SOVIET UNION UNDER THE PRESENT AGREEMENT).

3. A CALCULATION UNDER FORMULA (B) FOR THE COFFEE YEAR 1973/74 MAY BE DERIVED FROM DATA PROVIDED IN WP NO. 65, AS FOLLOWS:

MILLION BAGS	
GROSS IMPORTS	55.8
LESS RE-EXPORTS	4.5
SUB-TOTAL	51.3
LESS NON-MEMBER IMPORTS	.3
NET IMPORTS FROM MEMBERS	51.0
LESS INVENTORY CHANGE	1.0
MEMBER DISAPPEARANCES	50.0

TO ARRIVE AT A FIGURE FOR WORLD DISAPPEARANCES (FORMULA A) SOME 7 MILLION BAGS SHOULD BE ADDED TO THIS FIGURE TO TAKE ACCOUNT OF NON-MEMBER IMPORTING COUNTRIES AND THE SMALL AMOUNT OF COFFEE EXPORTED BY NON-MEMBER EXPORTERS.

4. THE DISAPPEARANCE CALCULATION PROVIDES A REASONABLY ACCURATE PICTURE OF ACTUAL CONSUMPTION TRENDS. IN CONTRAST, IMPORT DATA GIVE A DISTORTED PICTURE SINCE THEY REFLECT, IN ADDITION TO ACTUAL CONSUMPTION DEMAND, FLUCTUATIONS IN INVENTORIES OF GREEN BEANS HELD IN IMPORTING COUNTRIES (VISIBLE INVENTORIES), WHICH MAY BE BUILT UP OR DRAWN DOWN IN RESPONSE TO EXTRANEOUS CRITERIA (E.G., ANTICIPATION OF A PORT STRIKE). STOCKS AT THE RETAIL LEVEL (INVISIBLE INVENTORIES) ALSO FLUCTUATE ERRATICALLY. OVERTIME, HOWEVER, INVISIBLE

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INVENTORY FLUCTUATIONS TEND TO WASH OUT, SO A MEASURE OF GREEN BEAN QUANTITY PROCESSED AT THE ROASTER LEVEL WILL BE ROUGHLY EQUIVALENT TO COFFEE PHYSICALLY CONSUMED. OF COURSE, AGGREGATION OF THROUGH-PUT DATA FROM ALL PLANTS WOULD PROVIDE A MORE ACCURATE MEASURE, BUT SUCH DETAILED INDUSTRY DATA ARE NOT AVAILABLE.

5. IN SUM, THE DISAPPEARANCE CALCULATION IS THE BEST

AVAILABLE TOOL. IT IS A PROVEN METHOD AND INDEED
WAS USED -- ALBEIT LESS FORMALLY THAN NOW PROPOSED --
IN CALCULATIVE QUOTAS UNDER THE PRESENT ICA WHEN ECO-
NOMIC PROVISIONS WERE IN EFFECT. ITS WEAKNESSES DO

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NOT SEEM TO BE IN METHODOLOGY BUT IN THE REALM OF
COOPERATION BY IMPORTING COUNTRIES IN PROVIDING DATA
INPUTS. THIS VARIES SUBSTANTIALY FROM COUNTRY TO
COUNTRY, WITH U.S. DATA MUCH MORE RELIABLE THAN THAT
FROM THE FEDERAL REPUBLIC OF GERMANY, FOR EXAMPLE.

6. QUOTA SETTING BY EXECUTIVE DIRECTOR. ARTICLE 33
FORESEES THIS ACTION AS THE EXCEPTION RATHER THAN THE
RULE SINCE THE PRESUMPTION IS THAT THE COUNCIL WILL
HAVE SET GLOBAL ANNUAL AND QUARTERLY QUOTAS IN ADVANCE
OF QUOTA IMPOSITION. IF NOT, THEN THE EXECUTIVE
DIRECTOR WOULD HAVE TO FACE THE PROBLEM. HOWEVER,
THERE ARE IMPORTANT DIFFERENCES BETWEEN THE EXECUTIVE
DIRECTOR'S POWERS AND THOSE OF THE COUNCIL REGARDING
QUOTA SETTING:

(A) THE COUNCIL HAS FIRST RIGHT OF ACTION,

(B) A MORE PRECISE PROCEDURE IS INDICATED FOR THE
EXECUTIVE DIRECTOR (DISAPPEARANCES),

(C) THE AOUNCIL MUST REVIEW AND MAY REVISE THE
EXECUTIVE DIRECTOR'S ACTION UNDER ARTICLE 33,
PARA. 7. (THE COUNCIL ALSO WOULD HAVE THE
BENEDIT OF THE LAG SINCE THE START OF THE 20

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DAY COUNT DOWN TO ASSESS MARKET REACTIONS).
THERE ARE OTHER CHECKS ON THE APPROPRIATENESS
OF THE QUOTA LEVEL BUILT INTO THE ICA (REGARD-
LESS OF WHO SETS IT), I.E., THE PROVISION
FOR ADJUSTMENT IN ACCORDANCE WITH PRICE MOVE-
MENTS IN ARTICLE 39 AND PROVISION FOR REMOVAL
OF QUOTAS ALTOGETHER IN ARTICLE 33.

7. IN ANY CASE, IF THE EXECUTIVE DIRECTOR DID SET THE
QUOTA, THE PROBLEM WOULD BE ONE OF EQUATING THE AMOUNT
OF GREEN COFFEE TO BE EXPORTED TO CONSUMPTION AS ES-
TIMATED BY DISAPPEARANCE TRENDS AND AS ADJUSTED BY LIKE-
LY CHANGES IN STOCKS OF GREEN COFFEE IN IMPORTING
COUNTRIES, IN FREE PORTS AND STOCKS AFLOAT. IT IS IN
THE AREA OF STOCK ADJUSTMENT WHERE METHODOLOGY IS
WEAKEST.

8. IN THIS CABLE LITTLE MORE HAS BEEN ATTEMPTED THAN
TO DEFINE THE PROBLEM AND COMMENT ON TOOLS AVAILABLE
FOR MEETING IT. HOWEVER, DURING THE NEXT SEVERAL
MONTHS WORKING GROUPS ON VERIFICATION OF STOCKS, ON
A SYSTEM OF CERTIFICATES OF ORIGIN, AND ON INDICATOR
PRICES WILL MEET. THESE WILL BE FOLLOWED BY A MEETING
OF THE STATISTICAL COMMITTEE MAY 24-26. THIS SERIES
OF MEETINGS SHOULD BE OF CONSIDERABLE IMPORTANCE IN
CLARIFYING CONCEPTS AND METHODS AND FOR LAYING THE
GROUNDWORK FOP SUCH RULES AS MAY BE NEEDED.

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